R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 32A August 29, 1986

A NEW ERA FOR U.S. AGRICULTURAL EXPORTS

Summary

U.S. agricultural exports are reeling. Already down $8.8 billion in 1985 to $29 billion, overseas farm sales are expected to slide another $4 billion or so this year. Shipments to Japan, the dominant export market, have no more weathered the slump than sales to other traditional U.S. customers, falling 20.2 percent last year alone to $5.4 billion. If anything, the drop in Japan's purchases provides the best illustration of why U.S. agricultural exports are in trouble. It also highlights the shortcomings of the programs now being pushed on Capitol Hill to deal with the crisis in farm sales abroad.

What Has Happened to U.S. Farm Exports?

In 1981 U.S. agricultural exports hit $43.3 billion, nearly double overseas sales five years earlier. By 1985 farm shipments to foreign customers had tumbled to just $29 billion (see Table 1). What had already been tagged the agricultural export crisis is earning that label this year since American farmers will be lucky if 1986 export sales stay above $25 billion. And that might not be the decade's low point.

Why has the U.S. agricultural export boom turned into a slump? There is no shortage of explanations: the strong dollar, domestic farm policies, aggressive competition from traditional foreign exporters and newcomers alike, expanded food production in countries that used to be big importers, financial constraints in commodity-dependent developing countries -- the list goes on. But sorting out the primary causes of the tailspin from supporting or temporary factors first requires a quick look back at the export boom of the late 1970s.

Table 1: U.S. Agricultural Trade, 1976-86

(in millions of dollars)

	Exports (f.a.s.)	Imports (Customs)	Trade Balance
1976	$22,978	$10,966	$12,012
1977	23,636	13,438	10,198
1978	29,382	14,805	14,577
1979	34,749	16,724	18,025
1980	41,233	17,366	23,867
1981	43,339	16,772	26,567
1982	36,627	15,341	21,286
1983	36,099	16,627	19,472
1984	37,804	19,334	18,470
1985	29,026	19,968	9,058
January-June			
1985	15,580	10,494	5,086
1986	13,044	10,976	2,068

World economic conditions were tailor-made for an enormous expansion in U.S. agricultural exports. Moderate to strong economic growth in Europe, Japan and Canada plus rapidly rising export earnings in developing countries -- whether oil producers such as Mexico, Venezuela and Saudi Arabia, suppliers of other industrial inputs, or new exporters of manufactured products like Korea, Taiwan and Brazil -- added up to steady annual gains in international demand for food and feed. Stagnant grain output in Eastern Europe during the second half of the 1970s as well as periodic crop shortfalls in the Soviet Union also lifted world market demand; so did China's emergence as a major grain importer.

While Argentina, Australia, Canada and other competitors increased sales to their traditional customers in the late 1970s, only the United States with its huge production capabilities, diversified commodity base and well-developed export infrastructure was in a position to respond quickly to the boom in world demand. And respond it did. With an extra assist from the weak dollar, the volume of U.S. agricultural exports climbed by more than two-fifths in the four years through 1980 before leveling off the next year. But that was not the end of the story. Farm prices soared in the late 1970s and the first two years of the 1980s in tandem with the general run-up in world commodity prices, doubling the impact of bigger volume on this country's agricultural export numbers.

A glance at what happened to overseas sales of wheat, corn and soybeans -- the source of roughly half of U.S. farm export earnings -- puts the magnitude of the export boom in better perspective (see Table 2).

- Wheat shipments expanded by two-thirds (17.4 million metric tons) between 1976 and 1981 to 43.9 million metric tons, and with prices up by one-third, sales doubled to $7.8 billion. China, which only became a U.S. wheat customer in 1978, drove the market, alone buying 7.4 million metric tons in

The JEI REPORT (ISSN 0744-6489) is published weekly for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

1981, although sales to the Soviet Union did zigzag up over this period from 1.7 to 4.1 million metric tons.

• The gain in corn exports was only slightly less dramatic as sales soared by close to two-thirds to a 1980 peak of $8.5 billion on a volume jump of over two-fifths (18.8 million metric tons) to 63 million metric tons. Here a different group of customers were the major market-movers: Japan, which upped purchases from 6.4 million metric tons in 1976 to 11.8 million metric tons four years later; Eastern Europe, which added 4.5 million metric tons for a 1980 total of 7 million metric tons; and Mexico, which boosted imports from just 0.7 million metric tons in 1976 to 4.9 million metric tons.

• By the time soybean exports topped out in 1982, sales had shot up by almost nine-tenths to $6.2 billion and shipments had climbed by two-thirds (10.1 million metric tons) to 25.5 million metric tons. Behind this jump were bigger purchases by Spain -- an extra 2 million to 3.2 million metric tons -- and the Netherlands -- 1.8 million more for a 1982 tally of 5.2 million metric tons -- plus larger shipments to Japan, which increased deliveries from 1976's 3.1 million to 4.1 million metric tons.

Table 2: U.S. Exports of Wheat, Corn and Soybeans, 1976-86*

	Quantity (in thousands of metric tons)			Value (in millions of dollars)		
	Wheat	Corn	Soybeans	Wheat	Corn	Soybeans
1976	26,527	44,264	15,332	$3,879	$5,194	$3,316
1977	23,826	40,415	16,196	2,700	4,100	4,393
1978	34,096	50,043	20,705	4,335	5,258	5,208
1979	33,384	59,179	20,890	5,265	6,977	5,701
1980	35,750	63,042	21,779	6,375	8,492	5,880
1981	43,908	54,746	21,830	7,844	7,935	6,186
1982	40,782	48,789	25,475	6,676	5,582	6,218
1983	38,469	47,529	22,704	6,235	6,367	5,913
1984	42,243	48,940	19,483	6,473	6,999	5,419
1985	24,804	43,932	16,888	3,607	5,190	3,732
January-June						
1985	12,580	24,205	8,558	1,903	3,037	1,991
1986	10,621	13,724	11,756	1,448	1,522	2,458

*Includes wheat and corn donated for relief.

A review of sales by country also provides a handle on the extent of the export boom. Already the top U.S. buyer in 1976, Japan almost doubled its purchases over the next five years to $6.6 billion. Only a step behind was the number-two market, the Netherlands, which transships large volumes of American grains and oilseeds to other West European countries as well as to Eastern Europe, the Soviet Union and Africa. But the most striking market development of the late 1970s was the emergence of major new customers for American farm commodities. China, for example. From ground zero in 1976, China had become the sixth-largest buyer by 1981 with purchases of $2 billion. Equally arresting, sales to Mexico soared from under $0.4 billion to $2.4 billion -- a total

that made it the number-three export market. Korea also jumped several spots in the rankings to fifth place as its purchases climbed by $1.2 billion to $2 billion.

Major foreign buyers obviously could not sustain gains like these indefinitely, particularly with the dollar again strengthening in value. But instead of a soft landing, the export boom ended with a thud in 1982 -- a casualty of the recession that engulfed developed and developing countries alike that year. And in a double blow to the export numbers, prices reversed course, pulled down by all-time-high wheat production in 1981, a then-record 1981 corn crop and mounting surpluses of most other commodities.

Although exports dropped 15.5 percent in 1982 to $36.6 billion, the contraction could have been much deeper. A short soybean crop in Brazil, this country's main competitor for world trade in soybeans and soybean meal, gave the United States additional sales in countries that normally buy part of their requirements from Brazil. A more favorable soybean meal-corn price relationship in the European Community, the destination for about three-fifths of U.S. soybean and soybean meal exports, also lifted sales. Wheat exporters got some help from China and the Soviet Union, which maintained their purchases close to 1981 levels, as well as from India, which bought a large volume of U.S. wheat to make up for small food grain crops. Similarly, the fall in corn shipments was braked by bigger purchases by the Soviet Union, Spain and Korea.

A series of breaks in 1983 again insulated the agricultural trade numbers from the harsher realities of the new world market conditions. Through the first half of the year, however, it looked like exporters were in for a rude awakening: prices continued to fall under the weight of another record-breaking corn crop in 1982 and near-record 1982 production of wheat and soybeans, while demand for food and feed here and abroad showed no signs of rallying. But then nature intervened in the form of a severe drought during the summer of 1983. Coming on top of the government's payment-in-kind output reduction program for corn, the drought cut the 1983 corn crop in half and drove prices back to their 1981 level. The story was much the same for soybeans as the drought reduced 1983 production by one-fourth and returned prices to their former highs. In addition, overbuying by Japanese oilseed crushers worried that the drought might lead to tighter supplies and higher prices than actually materialized contained the drop-off in soybean shipments. For its part, corn export volume held up better than expected since a second year of drought in South Africa limited competition for U.S. deliveries to the big combined market of Japan, Korea and Taiwan. Meanwhile, expanded purchases by India, Iraq, Morocco and the Soviet Union propped up wheat exports. The net result: U.S. agricultural exports only slipped 1.4 percent in 1983 to $36.1 billion.

Any doubts that American exporters were on a lucky streak evaporated in 1984 when overseas farm sales expanded 4.7 percent to $37.8 billion on generally higher volume despite the strong dollar, relatively firm export prices, increased production outside the United States and a small gain in non-U.S. food and feed demand. Wheat and corn shipments reached their highest levels since 1981, thanks in large part to big Soviet purchases in the wake of another shortfall in grain production. With supply problems in Argentina, the main competitor for the U.S.S.R.'s grain trade, the United States provided almost

all of the Soviet Union's expanded import requirements, including what was then an all-time-high volume of corn and a near-record amount of wheat. Wheat shipments were also buoyed by stepped-up sales to China, Morocco and Turkey, while a sizable increase in sales to drought-stricken South Africa ironically gave an extra boost to corn shipments.

World market conditions finally caught up with U.S. agricultural exports last year, slicing sales by an unprecedented $8.8 billion to $29 billion and reducing the volume of wheat, corn and soybean shipments to levels not seen since the mid-1970s. Wheat and coarse grain consumption outside the United States, which had staged an unusually weak comeback during the first two years of the global economic recovery, slipped in 1985, while soybean meal and oil usage, although up in Latin America, East Asia and the Soviet Union, fell in the pivotal European Community market. By itself, sluggish international grain and soybean demand spelled trouble for American farm sales abroad in 1986 -- a factor generally overlooked in popular treatments of the export contraction. But, in fact, U.S. grain exporters were hobbled by a double constraint: another increase in wheat and coarse grain production by consistently big American customers and occasional buyers alike.

Lower world import requirements took a particularly heavy toll on wheat shipments. In a one-two punch, sales to the Soviet Union, the top export market in both 1983 and 1984, dropped 6.6 million metric tons and deliveries to China, 1984's second-largest buyer and the biggest U.S. wheat customer during the 1980-82 period, fell 3.2 million metric tons. To make matters worse, two other traditional importers -- Japan and Brazil -- plus Tunisia, Bangladesh, Indonesia and several more countries that were swing buyers in 1984 trimmed purchases because of improved harvests.

Although short Russian coarse grain supplies boosted corn shipments by 2.4 million metric tons in 1985 to a record 13.1 million metric tons, increased production of feed grains elsewhere in the world cost U.S. corn exporters sales. Nearly 2.3 million metric tons were lost when improved weather conditions allowed South Africa to supply most of its own coarse grain needs. Likewise, another increase in Mexican production led to an additional 1.1 million metric tons cutback in American exports. But far more damaging to U.S. export prospects than either of these development was last year's near-peak grain harvest in Western Europe. Coming on the heels of record production in 1984, the big crop not only reduced European import requirements but turned the EC into a net exporter of coarse grains for the first time.

The combination of flat international demand for grains and soybeans and greater output in importing countries made sales more difficult for all exporters in 1985, but the United States was the big loser in the fight for world market share for the fifth straight year (see Table 3). American wheat suppliers, which lost an incredible 17.4 million metric tons in exports between poor market conditions and heavy competition, saw the EC basically take over Morocco's large trade as well as split the bulk of sales to Turkey with Argentina. Argentine wheat also displaced most American wheat in Peru and won a bigger share of Brazil's reduced import requirements. Moreover, part of the huge cutback in U.S. shipments to the Soviet Union reflected expanded Russian purchases from Argentina, the EC and Australia, while some of the drop in China's imports can be traced to higher Australian sales.

Despite the EC's new status as a net exporter of coarse grains, it was competition from a true newcomer to the world feed grain market -- China --

Table 3: World Exports of Wheat, Corn and Soybeans, 1981-86*

(in millions of metric tons)

	1981/82	1982/83	1983/84	1984/85	Projected 1985/86
Wheat and Wheat Flour					
Canada	17.6	21.4	21.8	19.4	17.5
Australia	11.0	8.1	10.6	15.3	15.7
Argentina	4.3	7.5	9.7	8.0	6.1
European Community	15.5	16.3	15.5	17.8	16.0
Others	4.1	5.5	5.6	7.5	6.3
Total Non-United States	52.5	58.8	63.1	68.0	61.6
United States	48.8	39.9	38.9	38.1	26.0
World Total	101.3	98.7	102.0	106.1	87.6
U.S. Share	48.2%	40.4%	38.1%	35.9%	29.7%
Corn					
Argentina	4.9	6.5	5.9	7.0	9.5
South Africa	4.7	2.3	0.1	0.5	1.4
Thailand	3.3	2.1	3.0	3.0	3.5
China	0.1	0.1	0.4	5.2	4.0
Others	4.3	5.0	3.7	4.0	3.6
Total Non-United States	17.3	15.9	13.1	19.7	22.0
United States	50.0	47.5	47.4	46.7	36.1
World Total	67.3	63.4	60.5	66.4	58.1
U.S. Share	74.3%	74.9%	78.4%	70.3%	62.1%
Soybeans					
Brazil	0.9	1.3	1.6	3.5	1.5
Argentina	1.9	1.4	3.0	3.3	2.9
Paraguay	0.8	0.6	0.4	0.8	0.5
China	0.1	0.3	0.7	1.1	0.9
Others	0.4	0.3	0.2	0.3	0.3
Total Non-United States	4.0	3.9	5.9	8.9	6.0
United States	25.3	24.6	20.2	16.3	21.2
World Total	29.3	28.6	26.1	25.2	27.3
U.S. Share	86.4%	86.0%	77.4%	64.7%	77.7%
U.S. Share of World Wheat, Corn and Soybean Exports	62.7%	58.7%	56.5%	51.1%	48.2%

*Trade years as follows: wheat, July-June; corn, October-September; soybeans, October-September.

that cost this country the largest volume of corn sales in 1985. And adding insult to injury, the losses came in the biggest U.S. export market -- East Asia, where Chinese corn replaced 2.4 million metric tons of American corn in the stable Japanese market and an estimated 0.9 million metric tons in the expanding Korean market. U.S. corn shipments to the region were also undercut by increased Argentine competition, but a more important sales constraint was Korea's substitution of nearly 1 million metric tons of Australian and Canadian feed wheat for corn. A problem for American exporters in some other areas of the world as well, the availability of large volumes of feed wheat was just one more cause of the 5 million metric ton drop in 1985 corn shipments.

The United States also ceded ground to competitors in the expanding East Asian soybean market -- in this case to Brazil and Paraguay. The major battle for soybean sales, however, was played out in the flat markets of Western and Eastern Europe, and here, too, Brazilian suppliers made inroads at the expense of American exporters, as did Argentine shippers. Still, there was a thin silver lining to the U.S. loss of world market share -- an increase in sales to East Asia and a few European countries that limited the drop in 1985 soybean exports to 2.6 million metric tons.

Why has the United States had to shoulder a disproportionate share of the adjustment dictated by declining world trade in grains and soybeans? The reflex answer is the European Community's agricultural export subsidies. This finger-pointing is on target to the extent that it identifies one cause of the falling U.S. share of the world wheat market. Otherwise, it misses the mark. EC member countries are basically swing suppliers of coarse grains. Moreover, they do not export soybeans or competing oilseeds, and their sales of soybean meal and oil are no higher now than at the start of the 1980s.

The other obvious candidate is that the formerly strong dollar gave a big edge to U.S. competitors, but this explanation also has its limitations. For example, while the dollar's appreciation during the first half of the 1980s benefited Australian grain exporters, it had a limited impact on the price competitiveness of Canadian wheat since the Canadian dollar generally moved in line with the U.S. dollar. Similarly, EC exporters gained little benefit from the strong dollar because it merely raised U.S. grain prices closer to the high European level. Analysts also argue that the overvalued dollar was probably a minor factor behind the expanded world market presence of Argentina, Brazil and other developing-country grain and oilseed competitors.

In fact, the major cause of U.S. agriculture's declining world market share lies closer to home: domestic farm policy. Designed to maintain farmers' income, the system of government price supports, stockpiling programs and production controls has the added effect of keeping U.S. agricultural prices above market levels (see Table 4). This premium did not handicap American exporters during the world agricultural trade boom of the late 1970s. In the buyers' market of the mid-1980s it does.

The Sales Slide and Japan

Sluggish food and feed demand, expanded output in importing countries and stiff foreign competition took their toll on 1985 U.S. agricultural exports to every major customer from number-one Japan on down (see Table 5). Sales to

Table 4: Wheat, Corn and Soybean Prices, 1981-86*

(in dollars per metric ton, f.o.b. vessel, Gulf ports)

	Wheat	Corn	Soybeans
1981 Average	$176	$135	$272
1982 Average	161	110	233
1983 Average	158	137	269
1984 Average	153	138	271
1985 Average	137	114	214
1981 January	191	155	299
April	181	146	297
July	170	141	281
October	170	117	248
1982 January	175	109	247
April	171	120	250
July	152	113	241
October	149	94	201
1983 January	166	109	225
April	168	134	242
July	148	141	251
October	154	149	320
1984 January	153	144	292
April	158	150	303
July	149	143	257
October	154	123	236
1985 January	149	121	231
April	146	122	231
July	130	117	215
October	129	100	186
1986 January	133	108	210
April	138	102	205
July	128	n.a.	n.a.

*Wheat prices: No. 2, hard winter, ordinary protein; corn prices: No. 3 yellow; soybean prices: No. 2 yellow.

Japan, which had bucked 1983's decline in overseas farm sales and outperformed the market in 1984, slid 20.2 percent to $5.4 billion, the lowest level in six years. While this drop fell short of the overall export decline, Japan is the ideal case study for isolating the impact of competition on U.S. corn and soybean shipments from the twin sales constraints of weak demand and bigger domestic harvests; Japanese production of livestock and poultry feed continued to expand in 1985 and local output of coarse grains and soybeans remained negligible.

Table 5: U.S. Agricultural Exports by Major Market, 1981-85*

(in millions of dollars)

	1981	1982	1983	1984	1985
Total	$43,339	$36,627	$36,099	$37,804	$29,026
1. Japan	6,606	5,555	6,251	6,782	5,409
2. U.S.S.R	1,685	1,866	1,473	2,878	1,908
3. Netherlands*	3,391	3,085	2,576	2,323	1,870
4. Canada	2,058	1,820	1,844	1,963	1,622
5. Mexico	2,432	1,156	1,942	1,993	1,439
6. Korea	2,008	1,582	1,840	1,650	1,412
7. Taiwan	1,145	1,155	1,308	1,458	1,231
8. West Germany	1,778	1,448	1,529	1,065	944
9. Egypt	1,002	803	970	909	891
10. Spain	1,572	1,681	1,207	1,029	831
11. Italy	1,261	989	731	806	670
12. Venezuela	895	671	665	783	638
13. United Kingdom	989	915	823	754	604
14. Brazil	715	526	479	508	470
15. Portugal	764	578	660	698	438
16. France	628	626	485	507	403
17. Hong Kong	394	392	357	412	389
18. Belgium-Luxembourg*	856	906	834	753	387
19. Saudi Arabia	480	500	445	482	351
20. Iraq	125	132	343	535	326
China	1,986	1,505	544	613	157

*Not adjusted for transshipments.

Corn - On paper at least, American corn exporters to Japan should have had no trouble last year duplicating their record-setting 1984 performance of 13.6 million metric tons since all signs pointed to another gain in formula feed production -- the end use for roughly three-fourths of Japanese corn purchases. The strengthening yen on top of falling world grain and soybean prices allowed feed industry price leader Zennoh, a national federation of cooperatives controlling nearly two-fifths of the market, to cut bulk feed prices to their lowest levels since the late 1970s. With declines of 6 to 8 percent in the major cost of production for broiler, egg and milk producers and in the second-biggest cost for hog- and beef-finishing operations, Japanese formula feed demand remained on the upswing, shrugging off the dampening impact of weaker farm prices for pork, poultry meat and milk.

Helped paradoxically by greater output of hog rations and broiler feed, compound feed production expanded by 2.8 percent in 1985 to 25.2 million metric tons. Yet with relative feed grain prices again tilted toward increased sorghum usage, this corn substitute supplied nearly three-fifths of the extra grain volume needed to increase output. Feed mills did use some more corn. At any other time, this business would have automatically gone to American exporters, but 1985 was the year the U.S. stranglehold on Japan's feed corn market

was broken. Japanese trading companies make no apologies for buying 1.4 million of the feed industry's 11 million metric ton corn requirements from China or for purchasing 0.4 million metric tons of Argentine corn for mixing. Not only was Chinese corn priced below American corn on a delivered basis, but it had a higher protein content and a lower moisture level.

Although American corn suppliers needed no reminder that their luck had run out, they still got one. South Africa's normally big share of the Japanese market for corn to manufacture sweeteners, starch and other processed corn products was up for grabs again because of a second year of limited exportable supplies. But instead of taking over Japan's 4 million metric ton industrial corn market as they had in 1984, U.S. exporters were forced to split this business two-to-one with their new rivals, the Chinese. As simple arithmetic shows, this double setback cost the United States nearly 2.7 million metric tons in sales and dropped volume to 11 million, the lowest level since 1979.

Soybeans - Higher-than-anticipated Japanese production of commercially mixed feed last year did get U.S. soybean exports back on track sooner than anticipated. Despite a reduction in the 1984 soybean crush -- and a corresponding cutback in imports, Japanese oilseed processors still carried unusually large soybean meal stocks into 1985, mainly because 1984 relative protein meal prices had dictated greater use of fish meal and, to a lesser extent, rapeseed meal in compound feed. Moreover, the prospects for working stocks down in 1985 to a level that would support expanded crushing and larger soybean imports seemed bleak no matter how attractively soybeans were priced. Only a limited gain was initially predicted for feed production, while demand for rapeseed oil was rising.

Much to the relief of U.S. soybean exporters, 1985's sizable increase in formula feed output allowed Japanese oilseed processors to reduce meal inventories ahead of schedule. So did a partial flip in the relative prices of feed ingredients that gave vegetable protein meal an edge on other non-grain inputs. Contrary to preliminary indications, though, rapeseed meal was priced better than soybean meal over the six months starting in April.

With stocks back to manageable levels, processors stepped up soybean crushing and at the same time contracted for more imports. While this turnaround rescued U.S. shipments from back-to-back declines, there was a down side for American suppliers: their monopoly on providing all the soybeans crushed by the Japanese industry was broken by Brazil, which received orders for 0.2 million metric tons -- roughly half of the extra volume purchased in 1985. Still, the additional contracts coming to this country lifted exports to nearly 4.4 million metric tons, second only to 1983's outflow.

Wheat - Japan also provides an example of how changing market conditions affected U.S. wheat export prospects in 1985. But there is a major qualification. The government determines the volume of wheat shipped into the country and the price at which it as well as domestic wheat are resold to flour millers, using this control to try and slow the decline in Japanese rice consumption at the expense of increased demand for wheat. The results of this policy are generally the same: virtually no growth in wheat flour consumption and basically flat wheat imports.

Last year there were slight variations on these results. Bread production actually declined by 2.1 percent, while noodle output, which had been

rising at a fairly healthy pace, increased by a scant 0.4 percent -- even though for the second straight year the government hiked the rice resale price but left the wheat resale price unchanged. By itself, this was a bad sign for Japan's wheat suppliers -- the United States, Canada and Australia. In addition, though, the 1985 domestic wheat crop came in at 874,000 metric tons, 18 percent above 1984's bumper harvest. The government therefore pared imports from a record 6 million metric tons to 5.5 million metric tons by reducing purchases across the board, including a 0.2 million-plus cut to 3.1 million metric tons in American wheat.

No Shortage of Proposals

As bad as the U.S. agricultural export numbers were in 1985, they were just a preview of this year's results. With no buyers in the wheat market to replace the Soviet Union, China and Brazil, wheat shipments continue to tumble. Corn shipments are in a free fall, pulled down by reduced import requirements in key markets like the Soviet Union and the EC, Argentina's aggressive efforts to sell its record exportable corn supplies, and a flood of cheap feed wheat. Only soybean exports have staged a turnaround, thanks to drought-reduced production in Brazil.

Coming in an election year -- and one in which control of the Senate is at stake, the nonstop slide in grain exports has reignited the 18-month-old debate in Washington about what should be done to revive overseas farm sales. Congress and the Reagan administration thought they had found the answer in the 1985 farm bill, signed into law December 23. Designed to strengthen the competitive position of U.S. exporters as well as cut federal outlays for agriculture over the next five years, the act lowered price-support loan rates* for wheat and feed grains to bring domestic prices closer to international ones. Basic loan rates were cut for the 1986 marketing year, with annual reductions of 5 percent allowed through the 1990 marketing year. But former Department of Agriculture head John Block, using his authority to trim basic loan rates up to 20 percent a year, reduced the 1986 wheat rate to $2.40 a bushel -- a 27 percent drop from the comparable 1985 figure, while his successor, Richard Lyng, has scaled back the rate for 1987 wheat to $2.28. Similar downward revisions have been made in corn loan rates.

Although the new loan rates are still being phased in, farm state legislators of both parties have already labeled the 1985 act a flop, charging that it has failed to deliver on its underlying promise of an export rebound. There is no congressional consensus on what to do instead -- except something and quickly, but a drive spearheaded by Senate Majority Leader Robert Dole (R, Kan.) to extend a new price-support mechanism called a marketing loan to wheat and corn has attracted considerable backing. Mandated for rice and cotton, the marketing loan program allows exporters to sell at world prices even if those prices are below loan rates; the government simply makes up the difference.

*Loan rates are the rates charged by the government on crop loans extended at harvest time. Farmers put up their crops as collateral and have the option of selling them and repaying the loans or defaulting and forfeiting the crops to the government. Since farmers generally default rather than sell below the loan levels, loan rates are a significant determinant of U.S. export prices.

The attractions of marketing loans are understandable in an election year: rice exports have taken off since the program went into effect April 1, while cotton shipments have already rallied in the few weeks since the August 1 starting date for the new system. But the White House continues to rebuff congressional attempts to get it to use its authority to extend marketing loans to wheat and corn. Officials are convinced that including these two crops in the program would trigger a damaging subsidy war with important allies. The huge cost of underwriting marketing loans for grains is also anathema to an administration committed to reducing federal expenditures for agriculture.

There is also strong bipartisan support on Capitol Hill for a major overhaul of the popularly known export bonus program. Under this scheme, reluctantly initiated by the administration in May 1985, the government provides "bonuses" to foreign buyers in the form of government-owned commodities to match world prices and help U.S. exporters recapture sales lost to subsidized competition. But what Congress envisioned as a broad export-promotion program when it incorporated the plan in the 1985 farm bill has been narrowly interpreted by the Department of Agriculture. The Soviet Union, China and other communist countries were excluded from the start. The list of candidates was further shortened by limiting eligibility to countries targeted for subsidized EC sales.

To date, the Department of Agriculture has generated sales of 4.5 million metric tons of wheat and 1.2 million metric tons of flour plus small amounts of a few other commodities, mainly to the Middle East and North Africa. These limited results in an election year have fueled the congressional drive for an expanded program, a move President Reagan tried to head off with his about-face August 1 announcement that the Soviet Union would be offered subsidized U.S. wheat through September 30.

Other than this concession, the White House has so far refused to bow to congressional demands for immediate action to boost exports. Administration officials counsel patience, arguing that in time the decline in U.S. loan rates will trigger additional sales for American grain exporters. Lower world prices will also force U.S. competitors that expanded output in response to the high prices of the late 1970s to cut back production, they add. This is sound economic advice, but it will not win many votes in November from struggling wheat and corn farmers.

For further information, contact Susan MacKnight.

* * * * * *

The views expressed in this report are those of the author and do not necessarily reflect those of the Japan Economic Institute.

JEI Report will not be published September 5, 1986 because of the Labor Day holiday. The next issue will be dated September 12, 1986.

APPENDIX

Table 1: U.S. Exports of Corn, 1983-85*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	47,509	48,876	43,756	$6,363,933	$6,988,822	$5,171,573
U.S.S.R	3,032	10,615	13,045	404,438	1,450,351	1,540,672
Japan	13,047	13,642	10,977	1,753,335	1,990,200	1,292,583
Taiwan	3,266	2,883	2,967	430,296	426,591	373,528
Spain	2,979	1,733	2,461	393,267	234,721	277,149
Korea	4,074	2,200	1,770	559,678	327,317	209,628
Mexico	4,701	2,688	1,631	643,414	401,779	198,526
Egypt	1,586	1,538	1,524	205,844	222,898	175,944
Portugal	2,188	1,923	1,482	299,795	273,867	172,487
Belgium-Luxembourg**	2,166	1,703	813	291,027	237,586	88,062
Netherlands**	541	619	608	76,732	84,997	73,295
Venezuela	1,130	966	536	154,731	146,513	69,560
Brazil	52	77	553	7,622	11,297	64,183
Algeria	379	475	527	49,008	62,230	59,760

*Excludes corn donated for relief as well as seed and popcorn.
**Not adjusted for transshipments.

Table 2: U.S. Exports of Grain Sorghum, 1983-85*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	5,280	6,792	6,653	$699,067	$847,395	$736,051
Japan	644	2,233	2,426	84,137	269,095	240,862
Mexico	3,294	2,163	1,733	438,615	283,315	213,510
Venezuela	287	339	930	39,717	42,021	106,204
Sudan	0	21	440	0	2,415	55,052
Israel	441	591	484	54,607	73,644	50,633

*Excludes seed.

Table 3: U.S. Exports of Soybeans, 1983-85*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	22,704	19,483	16,888	$5,913,386	$5,418,493	$3,731,944
Japan	4,585	4,236	4,375	1,220,163	1,197,534	951,680
Netherlands**	3,789	3,364	2,857	960,359	889,341	638,289
Taiwan	1,375	1,313	1,358	362,647	390,637	321,720
Spain	1,944	1,642	1,195	520,748	439,719	252,646
Mexico	943	1,576	962	234,653	473,637	229,424
Korea	745	660	828	201,200	186,788	185,476
West Germany	1,611	742	847	422,614	197,425	185,043
Italy	595	583	628	154,647	157,095	138,036
Belgium-Luxembourg**	1,111	898	529	286,082	240,932	112,029
Portugal	701	609	518	181,370	162,564	110,533
Israel	436	389	428	99,919	109,444	92,820

*Excludes seed and soybean meal.
**Not adjusted for transshipments.

Table 4: U.S. Exports of Wheat, 1983-85*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	38,313	42,047	24,313	$6,212,960	$6,445,552	$3,536,142
Japan	3,465	3,377	3,120	589,324	534,445	468,970
Brazil	2,626	2,593	2,043	423,196	400,437	307,992
Korea	1,885	1,974	1,892	304,772	293,819	270,158
Nigeria	1,316	1,617	1,472	214,862	255,857	225,709
Egypt	1,943	1,536	1,640	296,481	211,325	206,101
U.S.S.R	4,836	7,646	1,068	800,584	1,170,847	162,290
Algeria	656	596	844	104,791	98,729	123,028
Philippines	846	714	700	145,448	121,601	115,105
China	2,458	4,067	817	377,686	576,319	105,005
Taiwan	623	654	645	107,086	109,118	99,082
Venezuela	889	817	574	157,841	150,232	98,863
Colombia	571	562	597	92,974	87,496	86,306
Portugal	602	732	625	88,692	108,700	82,319
Iraq	1,137	1,120	532	184,020	170,508	78,182
Italy	485	548	452	81,712	91,201	71,830
Pakistan	256	200	543	39,849	29,096	69,262
Chile	1,016	820	506	159,026	121,383	66,739

*Excludes wheat donated for relief.

Table 5: U.S. Exports of Cotton, 1983-85*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	1,201	1,497	1,097	$1,817,087	$2,441,370	$1,633,244
Japan	318	363	244	499,933	605,078	368,042
Korea	271	277	249	395,587	453,218	361,446
Taiwan	73	110	93	93,094	157,065	117,422
Italy	27	68	52	40,911	112,486	82,105
Indonesia	61	70	43	97,670	118,966	67,888
U.S.S.R.	45	100	45	72,223	167,407	63,577

*Excludes linters.

Table 6: U.S. Exports of Tobacco, 1983-85

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	238	246	249	$1,461,668	$1,511,067	$1,520,644
Japan	52	42	46	338,480	285,979	302,387
West Germany	26	30	35	150,745	177,857	216,653
Spain	18	24	19	128,650	169,189	135,241
Egypt	10	17	19	40,615	72,862	76,089
Italy	15	14	13	88,928	89,927	74,410
Switzerland	8	12	11	53,300	61,197	65,847
Taiwan	9	11	11	50,732	64,857	60,634

Table 7: Major U.S. Agricultural Exports to Japan, 1983-85

	Quantity (in metric tons)			Value (in thousands of dollars)		
	1983	1984	1985	1983	1984	1985
Total	---	---	---	$6,251,158	$6,782,301	$5,409,105
Corn*	13,046,635	13,641,997	10,977,346	1,753,335	1,990,200	1,292,583
Grain Sorghum*	643,858	2,232,603	2,425,873	84,137	269,095	240,862
Soybeans*	4,585,133	4,235,897	4,375,137	1,220,163	1,197,534	951,680
Alfalfa Meal and Cubes	466,480	427,576	400,494	66,634	60,275	56,812
Dried Beet Pulp	364,829	403,187	326,175	51,382	58,185	43,871
Wheat	3,464,770	3,377,081	3,120,324	589,324	534,445	468,970
Barley	303,143	360,662	138,195	37,369	46,718	14,179
Beef and Veal**	59,645	77,640	82,580	253,475	322,206	350,627
Beef and Veal Offals**	33,624	34,538	36,408	83,948	76,941	76,138
Pork**	34,197	18,908	9,183	117,975	62,138	32,654
Chicken**	63,756	50,823	45,019	87,085	72,085	55,144
Lemons and Limes	120,165	120,130	109,761	74,210	80,447	77,146
Grapefruit	168,546	144,713	107,686	59,668	51,362	51,506
Oranges	89,780	87,286	108,127	51,857	61,977	73,317
Raisins	17,839	16,686	20,263	22,649	18,412	21,969
Frozen Vegetables	82,024	83,531	86,822	61,650	59,525	60,958
Almonds	13,756	14,816	17,020	43,506	48,268	45,342
Cotton***	317,845	363,381	244,110	499,933	605,078	368,042
Tobacco	51,791	41,782	46,269	338,480	285,979	302,387
Whole Cattle Hides****	6,388,331	7,333,641	6,824,464	224,111	305,022	276,077
Inedible Tallow	56,365	40,814	38,404	23,872	19,519	15,989

*Excludes seed.
**Fresh, chilled or frozen.
***Excludes linters.
****Quantity in number of pieces.

Source for Tables 1-7: U.S. Department of Agriculture

Table 8: Japan's Imports of Corn, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	13,590,484	13,570,851	14,700,900	14,169,620	14,225,106
United States	12,128,449	10,956,001	13,438,302	13,736,803	10,969,579
South Africa	1,429,581	2,398,484	1,030,419	9,674	78,033
China	0	0	0	210,469	2,577,801
Argentina	984	120	29,808	118,123	466,295
Feed Corn	10,375,268	10,316,152	11,010,917	10,273,531	10,203,184
United States	10,265,509	9,945,181	10,978,795	9,967,746	8,310,119
China	0	0	0	165,221	1,388,557
Argentina	884	0	28,778	86,199	410,689
Corn for Industrial Use	3,215,216	3,254,699	3,689,983	3,896,089	4,021,922
United States	1,862,940	1,010,820	2,459,507	3,769,057	2,659,460
South Africa	1,343,876	2,228,717	1,027,525	9,674	78,033
China	0	0	0	45,428	1,189,294

Table 9: Japan's Imports of Grain Sorghum, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	3,300,854	3,427,768	2,956,832	4,477,957	4,792,798
United States	2,854,701	2,180,117	656,076	1,860,473	2,571,415
Argentina	25,480	834,971	2,189,277	1,613,045	1,265,705
Australia	406,364	409,699	103,290	1,000,212	792,826

Table 10: Japan's Imports of Soybeans, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	4,196,685	4,343,861	4,994,883	4,515,183	4,909,505
United States	4,021,865	4,196,406	4,646,134	4,180,630	4,345,350
China	113,290	111,912	287,971	307,863	288,572
Brazil	991	0	23,865	0	220,922

Table 11: Japan's Imports of Wheat, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	5,632,655	5,713,299	5,816,329	5,978,324	5,509,614
United States	3,394,374	3,417,255	3,347,809	3,432,904	3,231,741
Canada	1,351,309	1,308,694	1,485,708	1,484,726	1,234,201
Australia	881,820	987,350	982,812	1,060,694	1,043,672
Wheat for Food Use	4,400,367	4,419,111	4,549,127	4,708,290	4,326,330
United States	2,702,902	2,786,293	2,735,782	2,816,800	2,719,568
Canada	1,351,309	1,308,694	1,485,708	1,484,726	1,234,201
Australia	344,095	324,124	327,637	406,764	372,561
Wheat for Feed Use	1,232,288	1,294,188	1,267,202	1,270,034	1,183,284
United States	691,472	630,962	612,027	616,104	512,173
Australia	537,725	663,226	655,175	653,930	671,111

Table 12: Japan's Imports of Cotton, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	699,708	784,134	666,281	707,973	680,967
United States	258,592	353,274	315,905	372,174	275,611
Australia	55,381	80,767	45,265	60,585	91,426
China	0	8	5,583	23,886	75,240
Pakistan	41,076	35,464	45,690	14,736	75,221
Nicaragua	29,122	26,315	43,320	50,569	37,464
Egypt	30,872	30,558	29,571	30,235	28,172
Mexico	60,938	41,439	28,356	37,673	19,065
Sudan	16,737	13,966	18,035	19,381	17,254
U.S.S.R.	79,554	91,574	42,974	37,981	16,475

Table 13: Japan's Imports of Tobacco, 1981-85

(in metric tons)

	1981	1982	1983	1984	1985
Total	83,320	83,466	80,062	75,175	60,564
United States	51,517	49,810	51,706	45,772	38,748
Turkey	5,440	5,716	5,357	5,262	4,773
Greece	5,467	5,974	4,684	6,922	2,881
Malawi	2,186	2,639	2,929	3,243	2,685

Source for Tables 8-13: Japan, Ministry of Finance